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TAGS: [PREL](#) [PARM](#) [MARR](#) [ETTC](#) [IR](#) [IT](#)
SUBJECT: GOI STOPS FASTBOAT ENGINE SHIPMENT TO IRANIAN
REVOLUTIONARY GUARD, FOR NOW

REF: A. ROME 310
[1](#)B. 2006 ROME 3295
[1](#)C. 2006 ROME 3059
[1](#)D. 2006 STATE 179794
[1](#)E. OCTOBER 6 2006 REDDY-ITALY DESK E-MAIL
[1](#)F. 2006 ROME 0017
[1](#)G. 2004 ROME 0776 AND PREVIOUS
[1](#)H. 2004 ROME 0254

Classified By: Deputy Chief of Mission Anna Borg for reasons 1.4 (b) and (d)

[1](#)1. (U) This is an action request. Please see paragraph 14.

[1](#)2. (S/NF) Summary. Over the past four years, Post has engaged the GOI repeatedly on Italian exports of fastboats and their components to Iran (refs B, C, and G). We recently heard that fastboats and marine diesel engines exported to Iran were purchased by the Iranian Revolutionary Guard, contrary to earlier GOI statements that the boats were exported for use by the Iranian Coast Guard. Isotta Fraschini Motori, the manufacturer of the fastboat engines, has reached an informal "gentleman's" agreement with the GOI not to pursue Iranian interest in an additional 400 engines, but will export five or six more engines to complete an on-going export of 60 engines. Both the company and the GOI note that the engines' export to Iran is legal under Italian law. Isotta Fraschini is now seeking contracts to take the place of future Iranian orders, and has identified the U.S. Coast Guard's Response Boat-Medium program as its most likely customer. The GOI and Isotta Fraschini have expressed concern that the German companies MAN and MTU will step in to fill future Italian demand for fastboat engines. An Isotta Fraschini official told us the informal nature of the "gentleman's" agreement leaves the company exposed to commercial and labor pressures to resume exports to Iran. The GOI has outlined plans to implement improved export controls, and we should do all we can to support that effort. Ref A conveys Embassy's strong recommendation to hold bilateral consultations immediately to engage the GOI on improving Italy's export control system. End summary.

Export of Marine Diesel Engines to Iran Halted

[1](#)3. (S/NF) Acting Ecmin met February 9 with Alberto Maestrini, Executive Senior Vice President of Fincantieri, to discuss ref D marine diesel engine exports to Iran by the Isotta Fraschini Motori company, a Fincantieri subsidiary. (Note: Isotta Fraschini is a wholly-owned subsidiary of

Fincantieri. The GOI owns 98.79 percent of Fincantieri through Fintecna, a holding company controlled by the Ministries of Finance and Economic Development. End note.) Maestrini was accompanied by Enrico Padula, an MFA official responsible for Wassenaar Arrangement and Missile Technology Control Regime issues, and Alberto Cuzzoni, Director of the Ministry of Economic Development office of technology transfer and defense-industrial issues.

¶4. (S/NF) Maestrini stated that following ref C demarche regarding Isotta Fraschini's export of marine diesel engines to Iran, the GOI had urged Isotta Fraschini not to pursue further exports to Iran. According to Maestrini, Isotta Fraschini will finish filling an Iranian order for 60 engines (of which only five or six engines have not been shipped), but will not follow up on Iranian interest in purchasing an additional 400 engines, worth some 40 million euros. (Note: We have repeatedly demarched GOI officials regarding our concern over the export of fastboats and their components. See refs B, C, E, and G. End note.) Maestrini stated that the German companies MAN and MTU could fill the Iranian order, if Isotta Fraschini does not. (Note: In a previous meeting with Acting Ecmin, Carlo Tripepi, the MFA official responsible for licensing arms exports, said the MFA had contacted the German Embassy in Rome to urge the GOG to implement similar restrictions on marine diesel engine exports to Iran. End note.)

¶5. (S/NF) In a February 12 e-mail, Cuzzoni underscored the voluntary nature of Isotta Fraschini's actions and stated that "the supply of naval motors to the Iranian Revolutionary Guard, which are not subject to the Wassenaar Arrangement, produced by Isotta Fraschini, are gradually being stopped."

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Prior to Cuzzoni's e-mail, the GOI had argued the engines were outside the Wassenaar Arrangement, but had never said the engines were exported to the Iranian Revolutionary Guard.

Indeed, the MFA's Tripepi and his predecessor told us the engines and ref G fastboats were exported to the Iranian Coast Guard. (Comment: Cuzzoni is a well-placed Ministry of Economic Development official who has occasionally provided useful information to this Embassy regarding Italian arms exports. We have no reason to doubt the veracity of his statement that the engines were being exported to the Revolutionary Guard. End comment)

¶6. (S/NF) Maestrini said Isotta Fraschini's decision not to pursue additional business with Iran was made because of GOI pressure and because Isotta Fraschini and Fincantieri want to increase their sales to the USG. Maestrini confirmed Isotta Fraschini's interest in winning a subcontract with Marinette Marine to provide engines for the U.S. Coast Guard's Response Boat-Medium (RB-M) program in lieu of selling additional engines to Iran. He said the Marinette Marine contract, also for 400 engines, would be worth 20 million euros, about half the value of the Iranian contract. Fincantieri, Isotta Fraschini's parent company, is also interested in participating in the construction of the Coast Guard's Deepwater Patrol Vessel and in the contract for the Littoral Combat Ship.

¶7. (S/NF) To avoid closing the Bari plant manufacturing the engines, the GOI is working with Isotta Fraschini to find alternative customers, which may include the Italian Ministry of Interior, Guardia Di Finanza, Italian Navy, Libyan government, and unspecified Russian customers. Maestrini said none of these potential customers had firm contracts to offer in place of the Iranian contract, and that the Marinette Marine/U.S. Coast Guard contract is the most promising. He said Marinette Marine will stop taking bids for the RB-M engine subcontract in two to three weeks, and that he was "absolutely confident" Isotta Fraschini would win the subcontract. Maestrini has misgivings over whether a foreign supplier would be fairly considered, and expressed concern that because the firm did not supply the engine for

the Marinette Marine test boat used to win the RB-M contract, the firm's bid will be at a disadvantage.

Through an Informal, Undocumented, Agreement . . .

¶8. (S/NF) Maestrini stated that the agreement between Fincantieri/Isotta Fraschini and the GOI is a "gentleman's agreement," with "nothing on paper" to prove its existence. Maestrini lamented that by using an informal mechanism to halt the engines' export, the GOI had disavowed any responsibility for the employment effects of losing the Iranian contract for an additional 400 engines. Specifically, Maestrini stated that if there is no replacement buyer for the engines, Isotta Fraschini will face labor problems at the Bari factory manufacturing the engines.

According to Maestrini, eighty percent of the 200-person workforce had already been laid off and is receiving unemployment compensation. A failure to win the RB-M, or similar, contract would result in the plant's closure, and the loss of 200 jobs in one of Italy's most economically depressed regions.

¶9. (S/NF) In an earlier conversation with Econoff, Cuzzoni said the USG should understand the "political context" in which the GOI is acting with respect to the export of these engines, and warned that Alfonso Gianni, a Communist Renewal party member of parliament and the Economic Development Ministry Under Secretary responsible for defense trade, is willing to blame the USG publicly for any Italian job losses caused by cutting Isotta Fraschini off from its Iranian customers. (Note: In ref B and C demarches to the MFA, and in conversations with Trade Ministry officials, we have made clear our own "political context" and concerns over the threat posed to western naval forces in the Persian Gulf, should the fastboats and their components be exported to Iran. We have noted that the boat used to attack the USS Cole, for example, was not a Wassenaar-controlled item. End note.) In a February 12 e-mail, Cuzzoni noted that the exports "are 'gradually' being stopped to avoid political backlash over the firing of over 90-120 company employees." Cuzzoni stated the GOI expects the USG to "ensure the U.S.

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Coast Guard inform us in due time of any deficiencies of our bid to allow us the time to amend our offer."

Revealing the Weaknesses of Italian Export Control "System"

¶10. (S/NF) Comment. MFA officials have consistently maintained that they could not halt the export of the engines because their export is not covered by the Wassenaar Arrangement and their export to Iran is legal under Italian law (refs B and C). Because of this gap in Italian export control regulations, the GOI was forced to resort to ad hoc, extra-regulatory, measures to stop the engines' export, similar to the ones used to halt the export of a fastboat to Iran in 2004 (ref G). This line of reasoning is consistent with the GOI's practice of interpreting its Wassenaar Arrangement obligations as narrowly as possible, to maximize export opportunities for Italian business. This interpretation of Italy's Wassenaar Arrangement obligations, and Cuzzoni's inadvertent disclosure to us that the Isotta Fraschini's customer was the Iranian Revolutionary Guard, raises disturbing questions about the extent to which the GOI has allowed the export of goods not controlled by the Arrangement to proceed, regardless of the end-user.

¶11. (S/NF) Comment continued. However, even some in the GOI recognize this problem. According to Trade Ministry Director General Amadeo Teti, the GOI is now instituting an improved export control system, including a broader catch-all authority to block the export of goods not included in the Wassenaar Arrangement, to individuals and companies included on a GOI-maintained list. Embassy will press the GOI to

implement these new export controls as soon as possible. However, a more comprehensive mechanism to assist the GOI to improve its export controls are the bilateral export control consultations proposed ref A.

¶12. (S/NF) Comment continued. By halting the export of Isotta Fraschini engines without a paper trail, the GOI has avoided responsibility for the consequences of losing future sales to Iran. If Isotta Fraschini has to close its Bari factory, the company will have to face its labor unions alone, without evidence that its hand was forced by the GOI. Cuzzoni's statements make clear that at least one GOI official is prepared to publicly blame the USG for Isotta Fraschini's decision not to pursue additional Iranian contracts. Finally, we note that by handling this export outside of normal export control mechanisms, the GOI leaves open the possibility that Isotta Fraschini may resume exports to Iran, if Isotta Fraschini is not able to find other buyers. Alternatively, Isotta Fraschini could resume exports to Iran after the firm fills other orders.

¶13. (S/NF) Comment continued. Cuzzoni's apparently inadvertent disclosure that Isotta Fraschini was exporting marine engines to Iran's Revolutionary Guard also raises disturbing questions about the GOI's willingness to cooperate with us on export control issues. During the four years that we have worked to halt the export of fastboats and their components to Iran, GOI officials have consistently maintained that the goods in question were civilian in nature and downplayed ref D concerns regarding the role that fastboat "swarm" tactics play in Iran's naval strategy in the Persian Gulf. The MFA's Tripepi argued the engines were not covered by the Wassenaar Arrangement because the engines were magnetic, not "amagnetic" (ref B). Tripepi has also described the boats and engines as "rich men's toys," and implied the purchaser was the Iranian Navy or Coast Guard. Cuzzoni's e-mail reveals the GOI knew Isotta Fraschini's customer was the Revolutionary Guard; the only questions that remain are how long has the GOI known this, and at what level was the decision made not to share this information with the USG? In any event, it is clear that the Italian export control system was not up to the challenge posed by the GOI's conflict of interest in this case. The responsible decision to list the marine diesel engines on Italy's national list of controlled commodities was at odds with the GOI's interest in the profitability of Isotta Fraschini. End comment.

¶14. (S/NF) Action requests. Post requests Department guidance on how to rebut GOI assertions that the Isotta Fraschini engines are not controlled by the Wassenaar Arrangement, including information on whether Tripepi's

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distinction between magnetic and "amagnetic" engines has any merit. (Engine technical details were provided ref H.) Post also requests Department consider instructing Embassy Berlin to demarche the GOG, urging it to counsel MAN and MTU against pursuing possible exports to Iran of engines similar to those manufactured by Isotta Fraschini. End actions requested.
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